

be more active, and I believe it is an area where we will get a major return for it. In response to a question just recently about budget matters, my reaction was stop and calculate what we have saved as a Nation as a result of finding the cure for polio. In my view, there is no reason why we cannot today operate from the perspective that there are cures out there if we could just provide the resources to our research scientists around this Nation. I am confident we can succeed, and I must say, Mr. President, I stand here today filled with joy, with the recognition that so many of my colleagues feel the same as I. I am confident again, if we make this investment, we can offer great hope to so many millions of Americans.

I thank the Chair.

# SENATE RESOLUTION 16—RELATIVE TO ABOLISHING THE INCOME TAX

Mr. LUGAR submitted the following resolution; which was referred to the Committee on Finance:

## S. RES. 16

Whereas the savings level in the United States has steadily declined over the past twenty-five years, and lagged behind our industrialized trading partners;

Whereas our economy cannot achieve strong, sustained growth without adequate levels of savings to fuel productive activity;

Whereas the income tax, the accompanying capital gains tax, and the estate & gift tax discourage savings and investment;

Whereas the methods necessary to enforce the income tax infringe on the privacy of our citizens and divert an estimated \$157 billion of taxpayer resources to comply with its rules and regulations;

Whereas the Internal Revenue System estimates that each year it fails to collect 17 percent, or \$127 billion, of the income tax owed to the federal government;

Whereas the income tax system employs a withholding mechanism that limits the transparency of federal taxes;

Whereas the most effective tax system is one that promotes savings, fairness, simplicity, privacy, border adjustability, and transparency;

Whereas it is estimated that the replacement of the income tax system with a national sales tax would cause our savings rate to substantially increase;

Whereas the national sales tax would achieve fairness by employing a single tax rate, taxing the underground economy, and closing loopholes and deductions;

Whereas the national sales tax would achieve simplicity by eliminating record keeping for most taxpayers and greatly reducing the number of collection points;

Whereas the national sales tax would be the least intrusive tax system because most taxpayers would not be required to file returns or face audits from the Internal Revenue Service;

Whereas the national sales tax is border adjustable and would place United States exporting on a level playing field with our foreign competitors;

Whereas a national sales tax is a transparent tax system that would raise Americans' awareness of the cost of the federal government;

Whereas a national sales tax would best achieve the goals of an effective tax system: Now, therefore, be it

*Resolved*, That it is the sense of the Senate that:

(1) the income tax system, both personal and corporate, the estate and gift tax, and the accompanying capital gains tax be replaced with a broad-based, single-rate national sales tax on goods and services;

(2) the national sales tax rate be set at a level that raises an equivalent level of revenue as the income taxes replaced;

(3) the federal government work with the states to develop a state-based system to administer the national sales tax and that states be adequately compensated for their efforts; and

(4) the Congress and states work together in an effort to repeal the sixteenth amendment.

Mr. LUGAR. Mr. President, I am pleased to submit a Senate Resolution expressing the sense of the Senate that the income tax system be abolished and replaced with a broad-based consumption tax on goods and services.

Despite a booming stock market and several years of economic growth, I have found that many citizens—particularly young Americans—are anxious about their future and have diminishing hope for better economic opportunities.

Long-term economic trends justify these apprehensions. From 1950 through 1973, hourly compensation—including both wages and benefits—increased an average of 3.0 percent per year. Since 1973, the average wage increase has been less than one half of one percent. During the past two decades, economic growth has been cut in half, averaging only 2.5 percent annually. If this isn't discouraging enough, limiting growth to 2.5 percent appears to be the economic course of the Federal Reserve Board.

Much of this economic underachievement can be attributed to our national savings rate, which has fallen to alarmingly low levels. After averaging 13.3 percent in the 1960's, our Nation's savings rate has sunk to 5.5 percent in the 1990's. Because of this low rate of savings, capital to fuel our economy has become increasingly scarce. As a result, productivity gains have averaged just 1.1 percent from 1974 to 1994. The Concord Coalition estimates that had our productivity held its pre-1974 annual growth rate of 2.9 percent, the median family income would now be \$50,000 annually, instead of the current level of \$35,000.

Although several other factors have contributed to this slowing of savings and prosperity, including continuing Federal budget deficits and the ensuing debt, our income tax system remains a significant drag on our long-term economic expansion. I propose that Congress should work toward the elimination of the income tax, the accompanying capital gains tax, and the estate and gift tax and replace them with a broad-based, single-rate national sales tax on goods and services.

The Federal income tax system is inherently flawed. By taxing savings and investment at least twice, it has become the biggest impediment to economic growth in the country. Each

year it costs Americans more than 5 billion hours of time to comply with it. That is equal to the total worker output of my State of Indiana. It is unfair and riddled with loopholes. It has been changed 31 times in the past 41 years. And finally, it doesn't work. By its own admission, the Internal Revenue Service fails to collect from nearly 10 million taxpayers, with an estimated \$127 billion in uncollected taxes annually. Anything this broken should be ended decisively.

One can evaluate a tax system using several criteria. It must be: (1) simple, (2) the least intrusive, (3) fair, (4) transparent, (5) border adjustable, and (6) friendly to savings and investment. I have studied recent tax reform proposals with these six factors in mind. Many are better than the current income tax. But if we are going to overhaul our tax system, we should choose the one that meets these criteria. I have concluded that a national sales tax is the best alternative.

The first factor in choosing an effective tax system is its simplicity. Under a national sales tax, the burden of complying with the income tax code would be lifted. There would be no records to keep or audits to fear. The money a person made would be his or her own. You may decide if you want to save it, invest it, or give it to your children. It is only when you buy something that you pay a tax.

The national sales tax is the least intrusive of the tax proposals. The IRS would be substantially dismantled. The IRS would no longer look over the shoulders of every taxpayer. Americans would not waste time and effort worrying about record keeping, deductions, or exemptions that are part of the current tax code.

The national sales tax is the fairest. Everyone pays the tax including criminals, illegal aliens, and others who currently avoid taxation. Wealthy Americans with lavish spending habits would pay substantial amounts of taxes under the national sales tax. Individuals who save and invest their money will pay less. Gone are the loopholes and deductions that provide advantages to those with the resources to shelter their income.

The national sales tax would also tax the underground economy. When criminals consume the proceeds of their activities, they will pay a tax. Foreign tourists and illegal aliens will pay the tax. Tax systems that rely on income reporting will never collect any of this potential revenue.

Of course, the fairness test must likewise consider those with limited means to pay taxes. Like the income tax system, a national sales tax can and should be constructed to lessen the tax burden on those individuals with the least ability to pay. One strategy for addressing this problem would exempt a threshold level of goods and services consumed by each American from the Federal sales tax. Another strategy is to exempt items such as housing, food

or medicine. I am committed to designing a tax system that does not fall disproportionately on the less fortunate.

The national sales tax is the most transparent. A Federal tax that is evident to everyone would bolster efforts in Congress to achieve prudence in Federal spending. There should be no hidden corporate taxes that are passed on to consumers or withholding mechanisms that mask the amount we pay in taxes. Every year the public and Congress should openly debate the tax rate necessary for the Federal Government to meet its obligations. If average Americans are paying that rate every day, they will make certain that Congress spends public funds wisely.

American exports would also benefit from the enactment of a national sales tax. We must adopt a tax system that encourages exports. Most of our trading partners have tax systems that are border adjustable. They are able to strip out their tax when exporting their goods. In comparison, the income tax is not border adjustable. American goods that are sent overseas are taxed twice—once by the income tax and once when they reach their destination. In comparison, the national sales tax would not be levied on exports. It would place our exports on a level playing field with those of our trading partners.

But the last and most imperative reason for replacing the income tax with a national sales tax is that it would energize our economy by encouraging savings. For the first time in the modern era, the next generation of Americans may be economically worse off than the previous one. Despite robust economic growth over the past several years, the average income of families has declined. They feel trapped in a box with diminishing hope of escaping.

The bottom line is that as a nation, we do not save enough. Savings are vital because they are the source of all investment and productivity gains—savings supply the capital for buying a new machine, developing a new product or service, or employing an extra worker.

The Japanese save at a rate nine times greater than Americans and the Germans save five times as much as we do. Today, many believe that Americans inherently consume beyond their means and cannot save enough for the future. Few realize that before World War II, before the income tax system developed into its present form, Americans saved a larger portion of their earnings than the Japanese.

A national sales tax would reverse this trend by directly taxing consumption and leaving savings and investment untaxed. Economists agree that a broad-based consumption tax would increase our savings rate substantially. Economist Laurence Kotlikoff of Boston University estimates that our savings rate would more than triple in the first year. Economist Dale Jorgenson of Harvard University has concluded

that the United States would have experienced one trillion dollars in additional economic growth if it had adopted a consumption tax like the national sales tax in 1986 instead of the current system.

As I have outlined here today, I believe the national sales tax is the best tax system to replace the income tax. If we enact a tax system that encourages investment and savings, billions of dollars of investment will flow into our country. This makes sense—America has the most stable political system, the best infrastructure, a highly educated workforce and the largest consumer market in the world. Our economic growth and prosperity would be unsurpassed. I am committed to bringing this message of hope to all Americans, and I look forward to working with my colleagues on advancing this important endeavor.

#### SENATE RESOLUTION 17—RELATIVE TO THE CHEMICAL WEAPONS CONVENTION

Mr. LUGAR submitted the following resolution; which was referred to the Committee on Foreign Relations:

S. RES. 17

*Resolved*, That (a) the Senate hereby expresses its intention to give its advice and consent to the ratification of the Chemical Weapons Convention at the appropriate time after the Senate has proceeded to the consideration of the Convention, subject to the conditions of subsection (b) and the declarations of subsection (c):

(b) CONDITIONS.—It is the sense of the Senate that the advice and consent of the Senate to the ratification of the Convention should be subject to the following conditions, which would be binding upon the President:

(1) AMENDMENT CONFERENCES.—The United States will be present and participate fully in all Amendment Conferences and will cast its vote, either affirmatively or negatively, on all proposed amendments made at such conferences, to ensure that—

(A) the United States has an opportunity to consider any and all amendments in accordance with its Constitutional processes; and

(B) no amendment to the Convention enters into force without the approval of the United States.

(2) PRESIDENTIAL CERTIFICATION ON DATA DECLARATIONS.—(A) Not later than 10 days after the Convention enters into force, or not later than 10 days after the deposit of the Russian instrument of ratification of the Convention, whichever is later, the President shall either—

(i) certify to the Senate that Russia has complied satisfactorily with the data declaration requirements of the Wyoming Memorandum of Understanding; or

(ii) submit to the Senate a report on apparent discrepancies in Russia's data under the Wyoming Memorandum of Understanding and the results of any bilateral discussions regarding those discrepancies.

(B) For purposes of this paragraph, the term "Wyoming Memorandum of Understanding" means the Memorandum of Understanding Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding a Bilateral Verification Experiment and Data Exchange Related to Prohibition on Chemical Weapons, signed at Jackson Hole, Wyoming, on September 23, 1989,

(3) PRESIDENTIAL CERTIFICATION ON THE BILATERAL DESTRUCTION AGREEMENT.—Before the deposit of the United States instrument of ratification of the Convention, the President shall certify in writing to the Senate that—

(A) a United States-Russian agreement on implementation of the Bilateral Destruction Agreement has been or will shortly be concluded, and that the verification procedures under that agreement will meet or exceed those mandated by the Convention; or

(B) the Technical Secretariat of the Organization for the Prohibition of Chemical Weapons will be prepared, when the Convention enters into force, to submit a plan for meeting the Organization's full monitoring responsibilities that will include United States and Russian facilities as well as those of other parties to the Convention.

(4) NONCOMPLIANCE.—If the President determines that a party to the Convention is in violation of the Convention and that the actions of such party threaten the national security interests of the United States, the President shall—

(A) consult with, and promptly submit a report to, the Senate detailing the effect of such actions on the Convention;

(B) seek on an urgent basis a meeting at the highest diplomatic level with the Organization for the Prohibition of Chemical Weapons (in this resolution referred to as the "Organization") and the noncompliant party with the objective of bringing the noncompliant party into compliance;

(C) in the event that a party to the Convention is determined not to be in compliance with the Convention, request consultations with the Organization on whether to—

(i) restrict or suspend the noncompliant party's rights and privileges under the Convention until the party complies with its obligations;

(ii) recommend collective measures in conformity with international law; or

(iii) bring the issue to the attention of the United Nations General Assembly and Security Council; and

(D) in the event that noncompliance continues, determine whether or not continued adherence to the Convention is in the national security interests of the United States and so inform the Senate.

(5) FINANCING IMPLEMENTATION.—The United States understands that in order to ensure the commitment of Russia to destroy its chemical stockpiles, in the event that Russia ratifies the Convention, Russia must maintain a substantial stake in financing the implementation of the Convention. The costs of implementing the Convention should be borne by all parties to the Convention. The deposit of the United States instrument of ratification of the Convention shall not be contingent upon the United States providing financial guarantees to pay for implementation of commitments by Russia or any other party to the Convention.

(6) IMPLEMENTATION ARRANGEMENTS.—If the Convention does not enter into force or if the Convention comes into force with the United States having ratified the Convention but with Russia having taken no action to ratify or accede to the Convention, then the President shall, if he plans to implement reductions of United States chemical forces as a matter of national policy or in a manner consistent with the Convention—

(A) consult with the Senate regarding the effect of such reductions on the national security of the United States; and

(B) take no action to reduce the United States chemical stockpile at a pace faster than that currently planned and consistent with the Convention until the President submits to the Senate his determination that